

# The Winter of



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Robust worldwide energy demand and hurricanes Katrina and Rita have combined during 2005 to produce the highest energy prices in a generation. National average gasoline prices leaped immediately following Hurricane Katrina by almost 50 cents per gallon, reaching about \$3.06 per gallon. Large price increases were also recorded for natural gas, diesel fuel, home heating oil, and aviation fuel.

The hurricanes caused major damage to oil and gas wells, production facilities, pipelines, ports, and refineries – offshore in the Gulf of Mexico and onshore along significant areas of the coast. Major efforts to repair and recover have been underway for three months, yet there remains much more to do. The onshore damage to refineries, processing plants, and transportation pipelines should be repaired by the end of March 2006. However, repairs to the much more extensively damaged offshore platforms, wells, and pipelines are not expected to be fully completed until June of 2006.

Even with reduced refining capacity, gasoline returned to pre-Katrina prices by the end of November 2005, with the help of gasoline imports and some price-induced reductions in demand. Other fuels – diesel, heating oil, and natural gas – remain at more elevated levels.

This winter, the cost of heating our homes will be substantially more than last year, according to the U.S. Energy Information Administration. Nationally, the average household cost for heating with natural gas this winter will be an additional \$281, or 37.8 percent more than the \$743 cost during the winter of 2004/2005. Households using heating oil are forecast to spend an additional \$255, or 21.3 percent more than the average cost of \$1,199 for last winter.

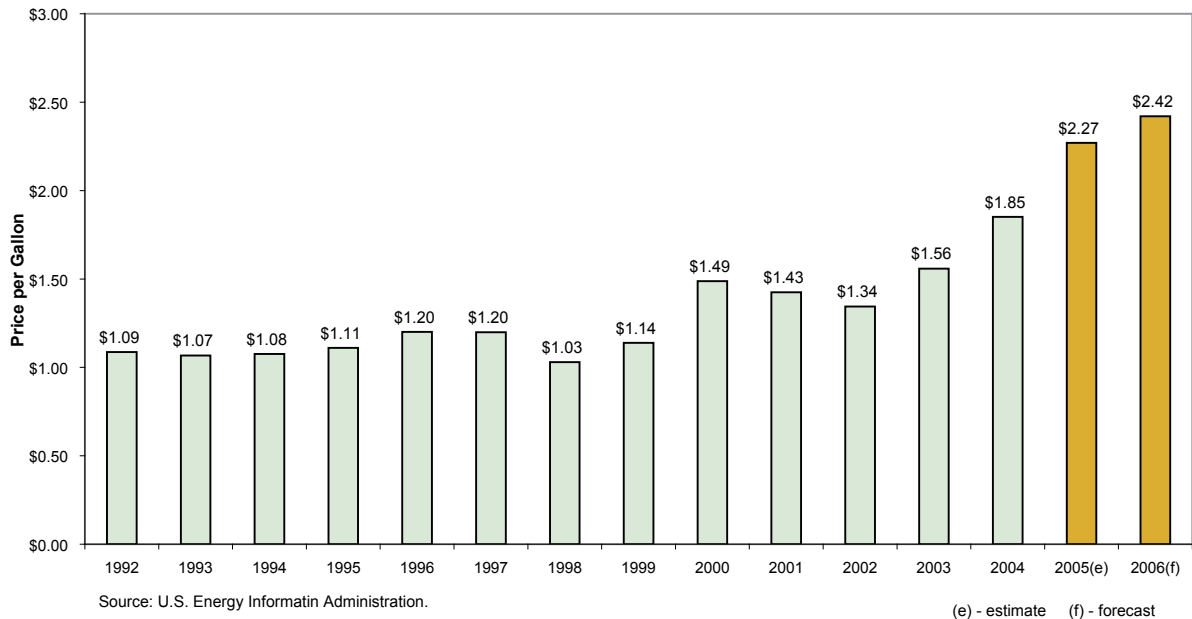
All of the higher energy costs will affect growth in the U.S. economy as consumers and businesses spend more for energy and less on other things. The direct affects on consumers, paying more for running their cars and heating their homes, reduces their disposable income and savings or increases their debt. Furthermore, these high energy costs will ripple throughout the economy with higher production, transportation, and other operating costs for all businesses.

To date, the economy has shown a remarkable resiliency, absorbing these higher costs. The U.S. economic expansion remains on track, with healthy growth in employment, production and incomes, in spite of the higher energy headwinds. 

# Our Discontent

## - High Energy Prices

**U.S. Average Retail Price of Regular Unleaded Gasoline:  
1992 to 2006**



**U.S. Average Residential Natural Gas Price: 1992 to 2006**

